

City of San José

THREE YEAR GENERAL FUND STRUCTURAL DEFICIT ELIMINATION PLAN STAKEHOLDER GROUP

May 5, 2008

All materials can be found at:
www.sanjoseca.gov/stakeholdergroup08.asp



Updates from April 28 Meeting

- Projected fiscal impact from ¼% San Jose District Sales tax increase is \$14.5 million to \$21 million.
- Q: *Why is "Eliminating Binding Arbitration" not on Urgent Strategy List?*

A: No immediate impact on Structural Deficit & no time to meet 2008 ballot deadline because of meet and confer requirement.



Updates from April 28 Meeting

- *Q: Would shifting a portion of the conveyance tax into the General Fund require a majority or a 2/3 vote?*

A: There are arguments for both and no case law. A 2/3 vote would be the safer way and would avoid litigation.

- URLs for the Retirement System CAFRs:

Federated: www.sjretirement.com/Fed/Plan/CAFR.asp

Police And Fire: www.sjretirement.com/PF/Plan/CAFR.asp

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Updates from April 28 Meeting

- *Q: Why so many tax measures on the Urgent Strategy List?*

A: "Timing urgency" criterion focuses on strategies needing voter approval – timeline for November ballot initiative requires immediate action.

Be ready: Pattern continues tonight. . .

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Preview Tonight's Meeting

- Strategy #6: Restructure Business Tax
- Strategy #8: Transient Occupancy Tax
- Strategy #10: Modernize Utility Users Tax
- Dot exercise to gauge group's preferences for the tax strategies

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Preview Tonight's Meeting

- Plan next steps in the Stakeholder Group Process:
 - Combine Steps II and III. Elicit strategy ideas from Stakeholder Group.
 - Organize strategies into common theme areas.
- Review meeting schedule

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Urgent Strategy #6: Restructure Business Tax to Modernize and Reflect Current Business Profile

- A. Modernize Business Tax rates by indexing rates to current CPI and raising maximums
Or
B1. Restructure Business Tax Formula (including Card room)
B2. Restructure Business Tax Formula (non-Card room)

See Management Partners Report page 68

Current Tax Rate Structure (Adopted in 1984)

<u>Annual Tax</u>	<u>Additional Tax Increments</u>	<u>Maximum Tax</u>
\$150 up to 8 (owners + employees)	\$18 per person over 8 (owners + employees)	\$25,000

Current Rate Adjusted by CPI (\$2007)

<u>Annual Tax</u>	<u>Additional Tax Increments</u>	<u>Maximum Tax</u>
\$300 up to 8 (owners + employees)	\$36 per person over 8 (owners + employees)	\$ 50,166

Other Jurisdictions

Many Different Formula Structures

- Income Approach
 - Net business income- Portland
 - Gross receipts approach- Los Angeles
- Employment Approach
 - Flat rate per employee- Nevada
 - Rate per employee by industry sector- Santa Clara
 - Flat rate per employee plus a rate per employee- Santa Cruz/San Jose
- Industry Approach
 - Flat rate per industry sector - Agoura Hills

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Strategy Analysis

Option A: Index Rates to CPI

- Adopted in 1984 and has been eroded by inflation
 - Voters rejected increase in 1998
- City substantially below other large CA cities
- City needs to remain competitive with peers
- Impact on small and large businesses

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Strategy Analysis

B1: Restructure Business Tax (card rooms)

- Income Approach
 - Net business income
 - Gross receipts approach
- Employment Approach
 - Flat rate per employee
 - Rate per employee by industry sector
- Industry Approach
 - Flat rate per industry sector

B2: Restructure Business Tax (without card rooms)

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Potential Fiscal Impact

Strategy A: Index Rates to CPI

- Annual base tax rate for all business types increase by CPI would result in additional \$13-\$15 million

Strategy B1: Restructure Business Tax Formula (card room)

- Gross receipts or net income approach: unable to determine
- Flat rate per employee: increases revenue by \$2-3 M
- Employment grouping by sector: increases revenue by \$1-2 M
- Flat rate by industry sector: increase revenue by \$6-\$8 M
- Increase card room tax from 13% to 15%: increases revenue by \$1.8 M

Strategy B2: Restructure Business Tax Formula (without card room)

- Reduces potential revenue by \$1.8 M

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Implementation Analysis Business Tax Increase/Modernization

Authority to Enact	Majority Council approval to place on ballot Majority voter approval to increase/modify Business Tax Rates or Structure
Timeline	November 2008 ballot (A - Index Rates to CPI) June or November 2010 ballot (B - Restructure Formula)
Key Steps	Outreach to business community (Option B would require extensive outreach) Council action Develop ballot language, survey

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Urgent Strategy #6

Restructure Business Tax to Modernize and Reflect Current Business Profile

Advantages & Concerns Discussion

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Urgent Strategy #8

Increase Revenues from Visitors who Benefit from General Fund Services:

1. Increasing Transient Occupancy Tax (TOT) and Shift to General Fund
2. Establishing Parking Tax (on City/RDA owned or all parking lots)
3. Establishing Vehicle Rental Tax

See Management Partners Report page: 78

Strategy Description

- City below market for visitor-based taxation supporting General Fund
- City can raise TOT rates, direct all revenues to General Fund
- City can levy parking tax on parking lots
 - All City/RDA owned lots or all Citywide lots
- City can levy tax on vehicle rentals

Peer Jurisdictions

- City below peers in TOT rates
- City does not have parking tax-most cities with airports do
 - San Francisco: 25%
 - San Bruno & South San Francisco: 8%
 - Los Angeles and Oakland: 10%
- City does not have Vehicle Rental Tax
 - San Francisco: 9%

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Strategy Analysis

- City not to move forward raising TOT
 - Hotels volunteering "Hotel Taxing District"
- Parking tax would apply to City-RDA owned lots and/or private lots
- Vehicle Rental Tax apply to all rental cars in City

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Potential Fiscal Impact

	Options	Potential Fiscal Impact
A.	10% Parking Tax for City & RDA owned parking lots	Approximately \$5.1 M annually
B.	10% Parking Tax for City, RDA and private parking lots	Approximately \$9.0 M annually
C.	Vehicle Rental Tax of \$5 per rental contract	Approximately \$4.7 M annually
D.	Vehicle Rental Tax of 5% of cost to rent vehicle	Approximately \$7.5 M annually

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Implementation Steps

Authority to Enact	Council Action Voter Approval
Timeline/ Key Steps	Summer 2008: Develop ballot language, survey November 2008: ballot

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Urgent Strategy #8

Increase Revenues from
Visitors who Benefit from
General Fund Services

Advantages & Concerns
Discussion

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Urgent Strategy #10

Modernize Utility Users Tax (UUT)
and Consider Increase to Bring Into
Alignment with Other Large Cities

See Management Partners Report page 71

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Strategy Description

- Option A – Increase Citywide UUT
 - Current Tax rate: 5%
 - FY 2006/07 actual revenues - \$79.1 M
 - Telephone – \$24.9 M
 - Electric – \$36.7 M
 - Gas – \$9.8 M
 - Water – \$7.7 M

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Strategy Description

- Option B – maintain current tax rate and modernize telephone users tax
 - Current tax outdated and does not cover out-of-state telephone calls
 - Will include all types of telephone calls
 - Create equity for taxpayers regardless of technology

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Other Jurisdictions

- Last four elections
 - 1 city implemented new tax
 - 1 city raised rate
 - 9 cities maintained current rate
 - 13 cities reduced rates
 - 2 measures failed
- Modernization assures wireless and other telecommunications technologies are covered

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Potential Fiscal Impact

- Option A: Increase all UUT Rates
 - For example, bring City to State-wide average of 5.5% for additional \$7.8 M
- Option B: Maintain current UUT rates and modernize telephone utility users tax
 - \$1.0-2.0 M annually for General Fund
 - Future potential revenue

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Implementation Steps

Authority to Enact	Majority vote of Council to put on the ballot Majority voter approval
Timeline	June: Council action November 2008 ballot: (B – Modernize) June or November 2010: (A – Increase)
Key Steps	Outreach (Option A would require extensive outreach) Council action Develop ballot language, survey

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Urgent Strategy #10

Modernize Utility Users Tax (UUT)
and Consider Increase to Bring Into
Alignment with Other Large Cities

Advantages & Concerns Discussion

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Closing Out Step I

- Time allotted for stakeholders to provide input to Council on City Manager's priorities at May budget study session.
 - Friday, May 16, 9:00 am in Council Chamber.

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Three Year General Fund Structural Deficit Elimination Plan Stakeholder Group Discussion

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